

Charity Basics

What is a Charity?

At the most basic level Charities are organisations that benefit the public. This benefit has to be legally seen to be Charitable under the terms of the Charities Act 2006.

According to the Charity Commission:

1. There must be an identifiable benefit or benefits
2. Benefit must be to the public or a section of the public

The advancement of the arts, culture, heritage or science is a recognised benefit, as is the advancement of education, which many heritage sites come under due to their outreach programmes.

Charities with an annual income of over £5,000 have to register with the Charity Commission. Charities with an income of £5,000 or less don't have to register with the Charity Commission but still need to abide by charity law and are still regulated by them.

Charities are run by 'trustees' - the people who form the governing body or 'board' of a charity. They may be known as trustees, directors, board members, governors or committee members, and they hold ultimate responsibility for directing the business of the charity. Most trustees are volunteers, and receive no payment (except out-of-pocket expenses).

Trustees act according to the governing document of the organisation and they should be able to find this document easily when required. This document sets out the vision, mission and aims of the charity and should be referred to regularly to make sure the charity is doing what it set out to do.

There are four main types of governing document, and the type you choose will determine the type of organisation the charity will be. The four main types of governing document are:

- constitution or rules
- small charity constitution
- trust deed and
- articles of association

A charity only needs one of these documents. Charities that also have a trading arm often use the articles of association.

The Governing Document, whatever type you choose, will contain:

- what the charity is set up to do (its aims, 'objects' or 'purposes');
- how the charity will do those things (powers);
- who will run it (charity trustees) their names and roles, e.g. treasurer, chair;
- how to change anything within the charity including its administration
- what happens if the charity wishes to wind up (dissolution provision).

It should also contain the following administrative provisions:

- how the charity trustees will run it; and
- internal arrangements for meetings, voting, looking after money, etc.

Charity Accounts

It is a legal requirement for all charities to maintain financial records and prepare accounts. These must be available to the public on request. The Charity Commission makes them available on their website, searchable by charity name and number. Most funders request a copy of the accounts for bids.

The duty to file accounts and the Trustees' Annual Report with the Charity Commission applies to all registered charities whose annual income or expenditure exceeds £10,000. Charities whose annual income exceeds £10,000 also have to send a completed Annual Return with their accounts

These documents must be sent to us within 10 months of the end of the financial year of the charity. If you send them late you may be fined and it will be recorded on your online record, this can look bad for funding applications.

The framework for accounting by charities sets out requirements for different sizes and types of charity. To understand how it applies to your charity, you need to check:

- whether or not your charity is also a company (in which case you also need to file accounts with Companies House);
- its **income** for the current financial year;
- the value of its **assets**; and
- whether or not it is required to be **registered** as a charity.

Then you need to find out:

- what **type** of accounts must be prepared;
- what information is needed in the Trustees' Annual Report;
- whether the accounts need an independent examination, accountant's report or audit; and
- what information must be sent to the Charity Commission.

Only charities with yearly incomes of **more than £10,000** are required to have their accounts independently examined or audited – below that threshold, accounts inspection is only needed if it is required by the charity's governing document.

Precisely what type of inspection is needed depends on the income and assets of the charity and whether or not the charity is a company. Broadly speaking, an independent examination is needed if income is between £10,000 and £500,000 and an audit is needed where the income exceeds £500,000. An audit will also be needed if total assets (before liabilities) exceed £2.8m, even if the charity's income is less than £500,000. Assets can include buildings and objects.

Annual Reports

The basic contents of the Annual Report are a legal requirement, but the report doesn't have to be very long. It can be useful as a tool to communicate with all the people involved in the



charity. The audience for an annual report can be wide, from the general public to donors, funders and the people who take part in your charitable activities.

It is a way of signing off the last year, the Charity Commission phrases it as: a chance to take stock of how the year compared to the trustees' plans and aspirations, a time to celebrate successes and achievements, and to reflect on difficulties and challenges.

Further information

This is only an introduction, Charity Law is extensive and complex and the Charity Commission is an excellent first port of call for further details on everything listed in this fact sheet.

The Charity Commission

<http://www.charity-commission.gov.uk/>

The regulator for all charities in Britain, provides useful toolkits and resources on their website.

The Cranfield Trust

www.cranfieldtrust.org

The Cranfield Trust is a leading provider of free management support to the UK voluntary sector.

Charities Safety Group

www.csg.org.uk

The Charities Safety Group exists to support charities and voluntary organisations to meet their legal requirements for health and safety.